RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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NOTICE: For years we've had trouble with our mailing houses in that they'd leave out a page in the mailings. We've used five different mailing houses over the last 36 years in California and sooner or later -- we've always had "that blasted omission trouble." So we've decided that this single-folded Letter could eliminate these screw-ups. Now our mailer just has to insert a single piece in each envelope, rather than the previous three pieces (one piece shouldn't take a lot of brain-power). We've had to give up on the punched holes, and I apologize for that, but it's more important that we eliminate those frustrating cases where a subscriber opens his envelope and finds that a page is missing.

THE MARKET: According to Dow Theory, everything anyone knows about forthcoming social, political or economic events is contained in the action of the Averages. I firmly believe that. Back in the '60s that pioneer market analyst, John Magee, used to say that "the charts are never wrong, it's the people who read them who are wrong." I believe that too.

DOW THEORY: On the October 27 market smash (the plunge which drove the D-J Industrial Average below its August 29 low of 7622.42), the Transportation Average refused by a wide margin to confirm (see page 1 chart). A Transportation penetration of its own August low of 2864.96 would have signaled a primary bear market under Dow Theory. **It never happened.**

We may not be fully aware of it, but at any given time we're dealing with either a bull market or a bear market. Since the Transportation Average negated the bear, by definition we're still in a bull market. You can dislike the bull, you can be suspicious of the bull, you can rant and rave about low dividend yields and overvaluation, you can condemn the utterly ridiculous number of mutual funds -- but in this business you darn well better deal with reality.

The fact is that the Dow Jones Averages could have, but they did not, signal a bear market. **Conclusion** -- the bull lives, which is why I continue to keep the bull in the "Investment Position" box. **Until proved otherwise**, dear subscribers, the bull lives. The bull lives, but there is a hint of trouble in the wind.

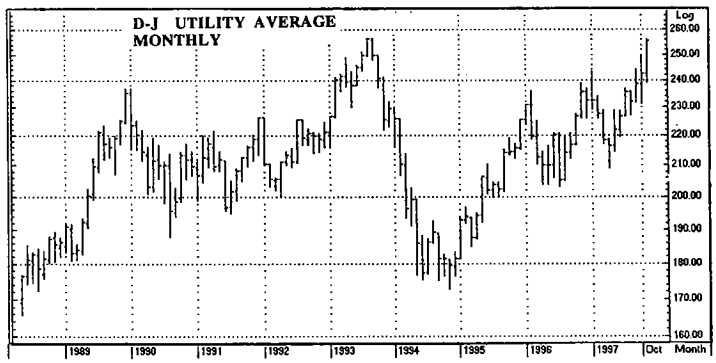
Double Non-Confirmation? We now have a situation which I haven't seen for many years. And it's a critically important pattern. It's what I have called the "double non-confirmation." I illustrate it in the page 1 chart below.

What we see is the Transports rallying to their record October 21 high of 3368.33, a high that was not confirmed by the Dow. Therefore, the Dow was the weaker Average.

Next, on the most recent rally that started on November 13, the Dow bettered its preceding peak, but here the Transports failed to confirm (to confirm the Transports would have had to better **3211.60**). So most recently the Transports were the weaker Average. So we have a most unusual situation wherein **first the Dow turned weak and then the Transports turned weak.** This is what I call the double non-confirmation.

To erase this important technical problem, the **Transports MUST better 3211.60.** If they refuse, the picture is set for potential trouble. By the same token (see page 2 chart), for the first time, the **advance-decline ratio is lagging the Dow.**

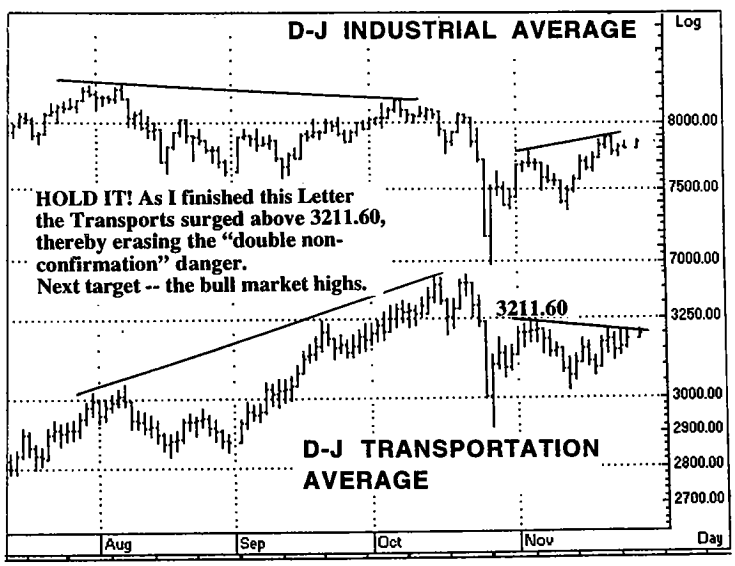
Nov. 21 DJIA 7881.07; PTI 5127; A-D Ratio +9.93
Nov. 28 DJIA 7823.13; PTI 5143; A-D Ratio +9.76
Dow Yield: 1.74%; Dow Price/Earnings: 20.1
Dow 144-day MA: 7632; Dow 34-day MA: 7742
Dow Times Book Value: 5.53; PTI 89-day MA: 5063
Percentage of Undervalued Blue-chips: 3%
Gold 34-day MA: 330

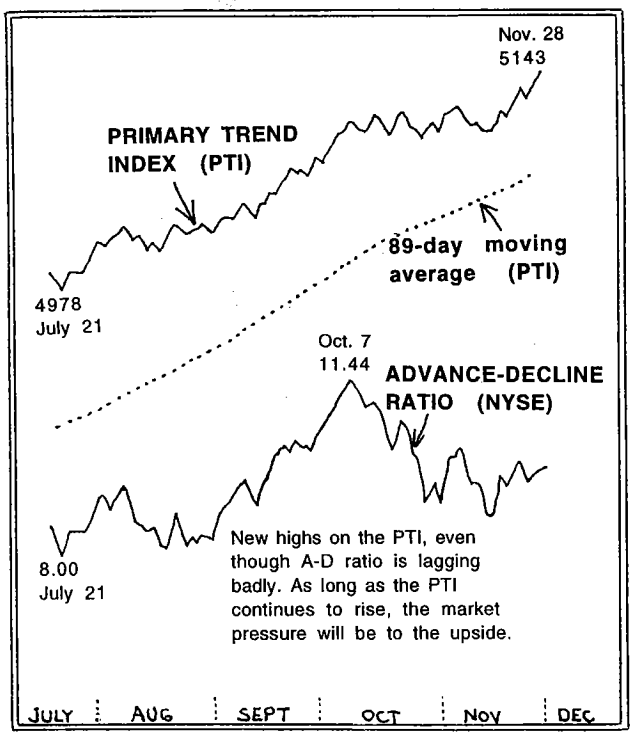


As in the case of Transports, this too is a potential for trouble. And, as in the case of Transports, the A-D ratio (meaning the majority of stocks) must continue to trend upwards. The breadth question is particularly interesting now because roughly 25% of the NYSE stocks are sensitive to interest rates. And rates have been coming down, which should be a major plus for breadth. But that has not been the case so far.

The question for the bulls, the big question is -- can the Averages advance to new highs? If both Averages can advance to new highs (i.e., the Dow above **8259.31** and the Transports above **3368.33**), they will have re-confirmed the bull market and the green flag will be flying. But until that happens, the market will be in what I term "no-man's land." Frustrating, indecisive, puzzling.

Utilities: Although the Utility Average plays no part in Dow Theory, I always keep an eye on this Average. The Utilities are sensitive to interest rates, electric and gas consumption and rate





increases. As such, they constitute a very large and important sector of the economy. Historically, the Utilities will often **lead** the market. At any rate, last week, on November 21, the Utility Average advanced to a record high of **256.75**.

QUESTIONS: After watching the stock market for over 50 years, one develops a healthy skepticism. In view of that, I'm including seven questions that I've been asking myself. **(1)** With bonds strong, gold very weak, and the Dow not having recorded a new high since August 6, could the primary bull trend be tiring? **(2)** With massive over-capacity in almost every area, are we seeing early indications of global deflation? **(3)** Is the recently lagging Transportation Average telling us that business is fated to slow down along with corporate profits next year? **(4)** With average stock yields around 1.7%, if stocks lapse into a broad trading range, how will the public react? After all, if you're receiving literally no dividend income, does it make sense to hold stocks that are not appreciating either? **(5)** With a large segment of the public still over its head in debt, is the most important word in the economy going to be **income**? Where do you get income today, particularly with average stock yields below 2%? Answer -- **bonds. (6)** With one currency after another being devalued and with the global battle for exports intensifying, are investors being too complacent? Can the US continue to be a protected island of safety and prosperity? **(7)** Ah, here's a far-out thought. The market has been strong in the face of the Asian crisis. Has the market been strong as it discounts the END of the Asian crisis? And when the crisis ends, will the US market sell-off, big time?

PRIMARY TREND INDEX (PTI): On November 20 my PTI rose to new record high. As long as the PTI is in a bullish trend and certainly as long as it is recording new highs, the odds of a major market decline are minimal.

To me, the market has three positive items going for it: **(1)** A record Utility high. **(2)** A bull trend in bonds. **(3)** Record highs in my PTI. But remember, that Transportation Average must better 3211.60.

DEFLATION? Government can fire up a bull market, but it can't stop a bear market. By the same token, governments can accelerate the rate of inflation, but they have great difficulty halting a deflation.

The current major argument among economists is whether the US (and the world, for that matter) is now heading for inflation or deflation or (is it possible?) stability.

The central banks are run by human beings, and human beings have a tendency to fight the last war. The last war the central banks fought was the inflation war, and that's the war that's still on our own central bank's mind. Fed Chairman Greenspan and his crew are undoubtedly focused on low unemployment, a scarcity of labor, high productivity, rising real estate prices. And surely they note that New York and Washington restaurants are full to capacity with reservations being made one and two months ahead. All that suggests inflation.

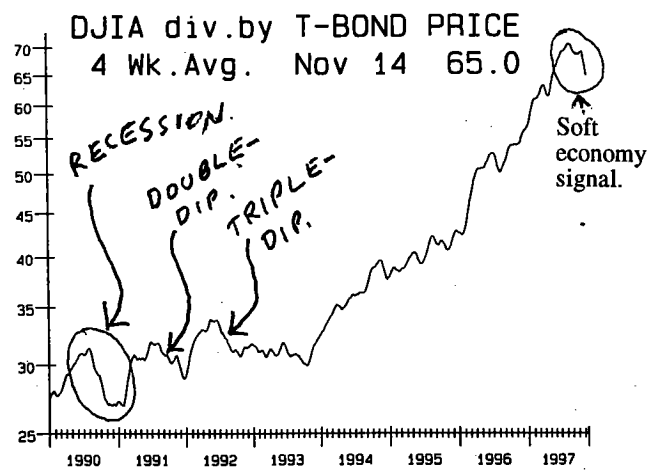
In the meantime, interest rates have been boosted by most Asian nations, by Brazil, by England, by Germany. At the same time, the ferocious battle for exports goes on, and with it we see over-capacity in almost every area from autos to PCs to cameras to washing machines.

Obviously, I could be wrong, but what I see is the specter of deflation. The global economy and the rise of manufacturing ability across the face of the earth has given rise to the so-called "new paradigm." The new paradigm refers to steady, high growth in a non-inflationary environment. Economists have waxed poetic over the new paradigm. My own feeling is that in time the new paradigm may become a synonym for over-capacity and deflation.

ITEMS: The Fed and the floor traders have always maintained that the **best predictor of the economy is the yield curve.** The yield curve is now quite flat. The yield on the 91-day T-bill is is at 5.27% and the yield on the 10-year T-note is at 5.77%. This means that the yield differential between the bills and the notes is only **0.5%.**

A 0.5% differential is a prediction of real GDP growth in the coming year at around 1.1%. With slow growth and little pricing power, we could see a squeeze in profits in '98.

As a corollary, this chart (courtesy Ed Hyman's *ISI*) shows the Dow divided by the T-bond price. Ed writes, "The stock/bond ratio is a good indicator. When stocks decline in the face of declining bond yields, it suggests a weakening economy." **Russell comment**: And that makes sense. Normally, when bond yields decline, stocks rise. But that's not what's happening today. Currently both stock prices and bond yields have been declining; the question is, are they declining in anticipation of slowing business?



The US trade gap in September rose to $11.1 billion, the largest since last January. With all of Asia and much of Europe fighting for exports and with the US market being a major target for sales, you have to wonder what the US trade gap is going to look like next year.

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Is our President a "lame duck"? That's the thought coming out of Washington. The turning point, it is felt, came a few weeks ago in the aftermath of Clinton's failure to win Congressional approval for "fast track" trade negotiating authority. The fact is that Clinton's own Democrats were the ones who killed fast track. Clinton wooed influential Republicans while neglecting the powers in his own party. The result -- Clinton now has little influence with his own party, which leaves him just a lame duck looking for an issue, maybe something besides "family values."

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Why are billionaires so fascinated with Hollywood? After all, it's a tough, nasty business -- but it's glamorous, and then there are those gorgeous women. Edgar Bronfman, Jr. (Seagrams) sold his company's $8.7 billion stake in DuPont to purchase an 80% stake in MCA for $5.7 billion. Since then DuPont's shares have doubled while Seagrams has increased by less than one-third.

Then there's Paul Allen, Bill Gate's former partner. Allen, a billionaire, sold $500 million worth of Microsoft stock to buy an 18.5% stake in DreamWorks, the new studio owned by Spielberg, Geffen and Katzenberg. So far DreamWorks has gone through almost $1 billion and has little to show for it but a few compact discs (unsuccessful) and one so-so film, "The Peacemaker." Since Allen sold, Microsoft's stock has more than quadrupled. Allen's desire to go Hollywood has, so far, cost him about $2 billion.

* *

The establishment war against EDTA chelation continues. The medical board of the state of Missouri has brought charges against Dr. Edward McDonagh, a physician who had been providing chelation treatments for 35 years. Why did the state board wait 35 years before bringing up charges? Probably because chelation is becoming more widespread and therefore a greater threat to the medical establishment. Aligned against chelation is the US Food and Drug Administration, the National Institute of Health, the American Medical Association, the Center for Disease Control and the American Heart Association. Question -- why doesn't one of these outfits institute a double-blind study and come up with some real facts for or against chelation? Question -- why are they all aligned against a treatment that is standard and accepted for metal poisoning? What is their beef, since the treatment is at worst harmless? Their argument is that chelation steers people away from "really effective" treatments like by-pass surgery, drugs and angioplasty. **Russell comment:** Chelation threatens the medical establishment, which makes billions of dollars on heart treatments. The medical authorities are not seeking honest, scientific proof against chelation, they're simply resorting to fear-talk and unsubstantiated propaganda . . . I believe that people are entitled to use any medical or alternative treatment they want. Who is the establishment to tell me what treatment I MUST follow? So why is the medical establishment so focused on outlawing chelation? After all, the FDA or the AMA are not outlawing cigarettes or alcohol, both of which are responsible for tens of thousands of deaths every year. Ah, but there are billions of dollars of profits involved in cigarettes and alcohol. So I guess the answer is -- just hold your nose and follow the money.

* *

The new book by Seymour Hersh, "The Dark Side of Camelot," has gone a long way towards demolishing the Kennedy legend. This was a legend created by such super-liberals as Arthur Schlesinger, Jr. and Theodore Sorensen. It's not that we didn't know that John Kennedy was a womanizer, but the depth of his depravity comes as a shock. Actually, this probably impacts favorably on Bill Clinton, another womanizer. You see, compared with Kennedy, Clinton comes off smelling like a spring flower. And then there's Lyndon Johnson, who actually boasted of the number of women he had bedded. What is there about these immoral men who are our leaders? I guess all you can say is, "Leave 'em to heaven."

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These cartoons came out about two weeks ago. The old Wall Street story has it that brokers and investors by the dozens literally showered the New York streets with their bodies during the '29 crash. Actually, that's just a fantasy, and very few people jumped

out of windows as a result of the crash. However, my Uncle Irving actually did kill himself in December of '29. Irving, a playboy, had never worked but lived on dividends from Landsberg's in Washington, D. C. (Landsberg's, owned by the family, was the largest department store in Washington, D. C.) When the store cut its dividend after the crash, Irving called my father and asked him to come over to his hotel (Irving always lived in hotels). My father said that he couldn't, he had to go out on business. Irving said, "I know what I'm going to do." Ten minutes later Irving jumped out of his hotel window. My father never got over that, and he blamed himself for Irving's death.

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On November 7 **Bill Gates** sold 150,000 shares of Microsoft. The next day he sold 400,000. Previously, between October 23 to 31 Gates sold two million shares in transactions valued at $261 million. Gad, is Bill bailing out of MSFT? Not at all, the October transactions amount to only 0.7% of his holdings in MSFT. Gates is simply diversifying. After all, he knows that it can be a mistake to have all your eggs in one basket, even if it's a red-hot basket.

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By the way, every decade seems to have its **corporate villain**, the feared "company to beat." When I first started out in this business, it was US Steel and then it was General Motors. After that it was the impregnable, unbeatable IBM. None of these are threats today. No today we have Disney ("they've taken over Hollywood and now they're even taking over New York") and Microsoft ("Gates is taking over the world"). Where will DIS and MSFT be 15 years from now. Who really knows?

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If you're going to suffer a case of **cardiac arrhythmia**, your odds are better if it happens in an airplane or a casino than in a doctor's office. Why? Most doctors aren't equipped to handle the problem. In an investigation by the Medical College of Virginia of 51 doctors' offices, it turned out that only six had bothered to buy a $3,500 heart defibrillator and only three had a nurse on hand who was trained in cardiac life support. On the other hand, Las Vegas casinos are increasingly making it a point to have defibrillators and

1998. Why? Increases in capital spending indicate that companies are still increasing their productive capacity at a time when demand is unlikely to be strong enough to absorb the additional output. At the same time, strength in employment indicates that virtually the only 'commodity' in tight supply is labor, which points to higher overtime and wage costs. Those are deflationary trends in our book."

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Last week **Japan** issued its clearest warning yet that ailing financial institutions will be allowed to go belly up and that the Japanese government will not join in any corporate rescue missions. Japan is telling its banks and other corporations, "You figure it out, merge, declare bankruptcy, do whatever you have to do, you're on your own."

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From our "It's Hard to Believe" file. Victor Niederhoffer ran a highly successful hedge fund for years, making millions for his investors. But when the stock market cratered on October 27, Niederhoffer Global Systems, a group of hedge funds that he and his 20 employees managed, saw its entire assets wiped out in a single day. A company that once managed $130 million was suddenly penniless. Much of it was Niederhoffer's own money. In a phone interview he said, "It was like death. This was my chosen pursuit in life for 20 years, and this is a terrible conclusion." Niederhoffer was unable to come up with the $50 million he needed to cover his losses, and that was it, end of story. Another pro said that he had never seen a fund lose 100% of its money in a single day. It was unprecedented.

* *

They may not have been unprecedented but the prices paid at a few of last months' **NYC auctions** were wild indeed. A Bruce Nauman neon display which flashed words such as "I was a good boy" sold for $2.2 million. A Marc Rothko painting described as a "blazing orange-red rectangle fraying away at its fluffy edges, poised on a lower soot-black rectangle" sold for $5.9 million. A little wire mobile by Alexander Calder sold for a mere $651,000. One thing sure -- the stock market boom has generated a lot of cash in NYC (total Wall Street profits for '97 are put at above $3 billion). **Russell comment**: A friend just back from Gotham tells me that the restaurants are packed with many eating joints wanting reservations one month in advance. Le Cirque 2000 claims to be getting calls for reservations at the rate of 2,000 a day. Your little home town may be struggling but in NYC the good times are rolling.

* *

What's Saddam doing? What does he want? If Saddam had cooperated with the UN and turned over his stocks of nuclear and biological weapons, he could have won an end to the sanctions. With massive infusions of new resources, Saddam then could have quietly rebuilt his weapons program. So what was Saddam thinking? **(1)** Like Hitler and his disastrous miscalculation when he attacked Russia, Saddam is in his own world and is just not thinking straight. **(2)** Or Saddam was afraid the inspection units were getting too close to his biological warfare stockpiles and therefore he had to use a ploy to halt inspection. **(3)** Or is the real truth that Saddam is more afraid of Iran than the wishy-washy US? Therefore, Saddam can't take a chance on his weapons being shut down and being attacked by Iran. **(4)** Or Saddam, macho egotistical killer that he is, simply wanted to force an edge-of-the-cliff showdown with the US, knowing that the US is so (politically) afraid of casualties that any US attack would be from the air and limited; these are attacks that Saddam has been willing to take before. **Russell opinion:** Colin Powell and Normy Schwarzkopf advised Bush in 1991 not to go in and grab Saddam. So now we've got a policy of containment. It won't work. We may yet have to go in and get Saddam. Or maybe we should just let Colin Powell figure it out.

In a scathing op-ed piece in the Nov. 26 *WSJ*, Mark Helprin condemns Clinton for his utterly cowardly stance toward Saddam. A few excerpts from the piece: "Clinton's habitual pattern of easy-going capitulation in exchange for time, indeed his whole approach, is uncannily like that of France and Britain during the interwar period." And again, "In a deeply embarrassing show of vanity, President Clinton has spent much time of late preening before the cameras. Clearly, he thinks he looks good . . . but history will record, and probably in blood, that this president betrayed our future for the sake of his present."

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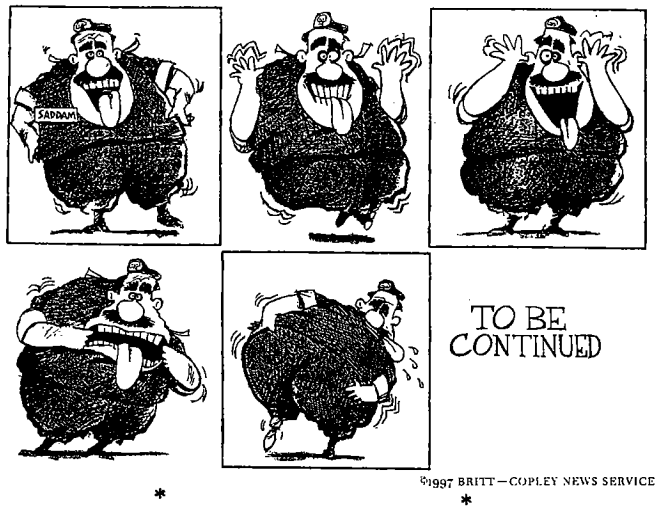

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Just 25 miles south of here in Tijuana, Mexico, the drug wars rage. Almost every day we hear of some DA or judge or druggie being killed. This has led to a thriving business. Security Passion of Ciudad Juarez, home of Mexico's most notorious drug cartel, is manufacturing (price around $2,000) a whole line of bullet-proof clothing, all lined with Kevlar. Says owner Lopez, whose clothes are a huge hit, "We are now testing our collection against the impact of Uzi sub-machine guns, a favorite weapon of the drug community here. Traditional bullet-proof vests are clumsy, frightening things. Our clothing allows complete freedom of movement. You can go for a stroll, or a dance at a disco, secure in the knowledge that you are completely protected." The Airport Authority in El Paso, Texas, has just requested 160 of Security Passion's bullet-proof jackets for its staff.

* *

Prosperity reigns in America, but strange -- the October personal bankruptcy filings in California were near a record. In October there were 18,420 filings, up 9.1% from September and up 7.1% from October of '96. You have to wonder what bankruptcies will look like when the inevitable bear market arrives.

* *

On November 17 S. Korea let its currency, the won, float, and the won immediately broke above the critical 1000 to the dollar level. This de facto devaluation of the won is the most significant currency collapse so far. S. Korea has the 11th largest economy in the world, with an output larger than Malaysia, Thailand and Indonesia combined. The sinking won will almost surely put additional pressure on the Japanese yen.

S. Korea Ends Won Defense

■ **Asia:** Government's action sends the battered currency through the psychological 1,000-to-the-dollar level.

Won Lost

South Korea's corporate bankruptcies and other woes have taken their toll on the country's currency, the won, which passed the 1,000-to-the-dollar mark on Monday. Won per dollar, weekly closes since Jan. 1 and latest:

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In the meantime, Brazil, with the world's eighth largest car market, is slumping and Merrill Lynch estimates that Brazil's economic fizzle will cost GM and Ford about 70 cents each in lower earnings. Brazil recently instituted a 51-point austerity program in an effort to stave off a devaluation and keep inflation in check. However, the program is very unpopular and if it doesn't work quickly it will doom the re-election of President Cardosa (who was the architect of Brazil's economic resurgence).

Brazil's Woes Depress Car Sales

By CHRIS KRAUL
TIMES STAFF WRITER

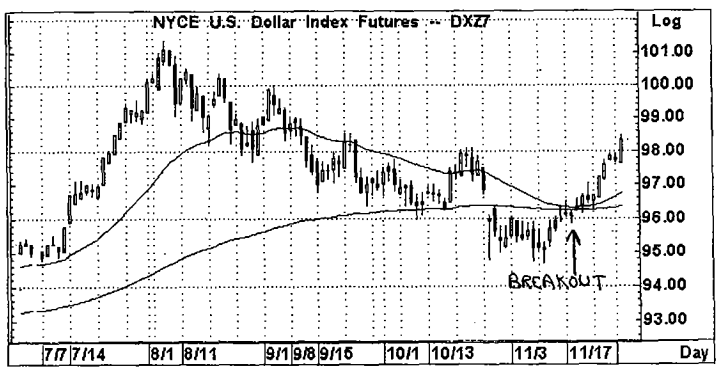
SAO PAULO, Brazil—The economic impact of Southeast Asia's own set of problems, to cost **General Motors** Corp. and **Ford Motor** Co. up to 70 cents per share in profit next year.

The real fear on the mind of knowledgeable economists is the possibility of a world banking crisis. If banks around the world collapse, that would almost surely mean major trouble for the US. Japanese banks have at least $250 billion in bad loans, and some say twice that amount. And actually, many Japanese banks are now technically insolvent. Banks in South Korea, Thailand and Indonesia are also in the same predicament. Of course, the big danger would be a sudden spat of investor panic, with money being pulled out of the banks en masse. This would deprive these nations of investment capital and it could topple some of the banks.

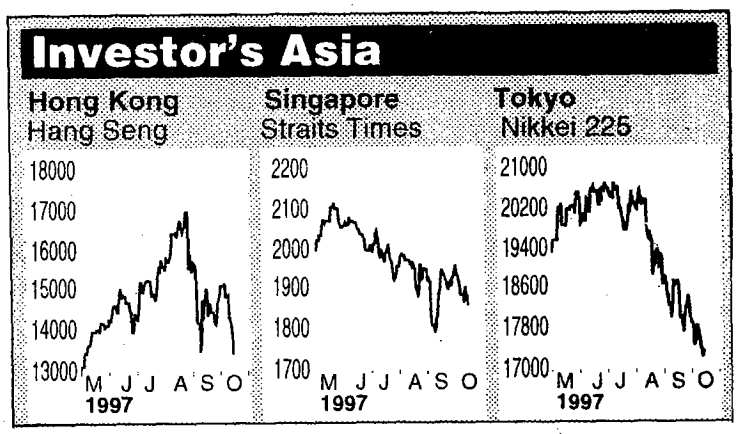
Place to watch -- the Hong Kong dollar. The air is now coming out of the Hong Kong real estate bubble, retail stores in Hong Kong are looking for customers and the pressure is on. Remember, Hong Kong is now part of China, and China does not want the Hong Kong dollar to sink. As to the Chinese yuan, ironically, it could conceivably be immune since it is not convertible and therefore not on FOREX traders' lists of currencies to attack.

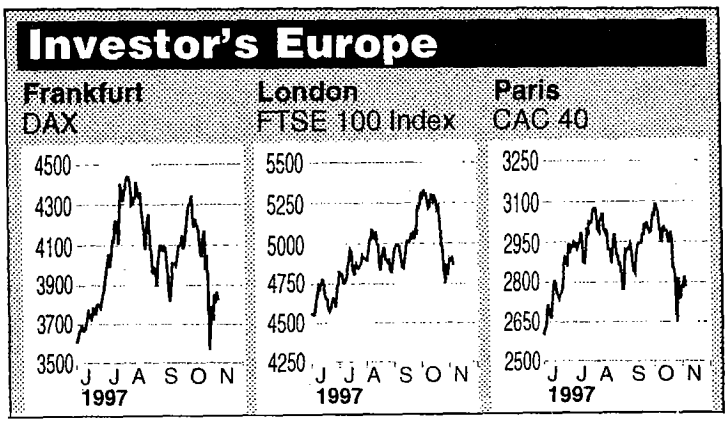
Now hear this -- it seems to me that all the smartest analysts I read or listen to are bearish regarding the Asian situation. Yet the US market holds up. Why? How? And I'm wondering, are Treasury Secretary Rubin, Fed Chairman Greenspan and President Clinton planning to bail out the world? You know, I wouldn't doubt it, I wouldn't doubt it at all.

DOLLAR SUPER-BULLISH: On November 20 the Dollar Index gave a decisively bullish signal, and it is now surging against almost all other currencies -- with the yen slumping to new lows and the D-mark now very weak against the dollar. With the surging dollar, you have to wonder how large our trade deficit is going to be. I can almost guarantee that it will be huge.



The Rest of the World: Here's what six key stock averages look like (charts courtesy of one of my favorite newspapers, the *International Herald Tribune*). You look at these charts and you wonder -- can the US remain immune?





INVESTMENT POSITION: The bull remains in the box. Why? Simple -- because the prevailing trend remains in force until proved otherwise, and because we never received a bear signal either from Dow Theory or the PTI. That doesn't mean that I "like" this market, but, of course, Wall Street couldn't care less about what Richard Russell likes or doesn't like.

Position? One-third to one-half in 20-year or longer Treasury bonds. Put the rest in a mixture of three-year notes and T-bills. The yield curve is now fairly flat meaning that they don't pay you much more than T-bill rates, even if you go way out on maturities. The only reason to go way out (20 years or more) is to lock in current rates of 6% or better. That word **income**, it's going to be a hot item over the next few years in my opinion.

A big fear among bond "experts" is that the Japanese, who hold around $300 billion in Treasury securities, might start selling them to cover losses. But I ask, why would they sell dollar denominated bonds for yen, when the yen is weak and furthermore, they can't get anything like US rates in Japan?

NOTES & QUOTES: Each day and week I receive a "ton" of advisories. I tend to separate them into the "very intelligent," the "average" and the "drones." Two of the very intelligent are Kiril Sokoloff of *13-D Research* [(208)726-1565] and Marc Faber out of Hong Kong (85228015410). Both of these gentlemen expect deflation and trouble. Says Kiril, "For whatever it's worth, China, Singapore, Taiwan, Hong Kong and Japan account for nearly half of the $1.1 trillion of central bank reserves. Given the need to support their various currencies, their ever-growing economic problems and the inevitable pursuit of self-interest in tough times, these nations are unlikely to be lenders of last resort in any serious way. If so, where will the capital come from to find the additional bailouts that lie ahead of us?"

Writes Marc, "A period of global deflation is inevitable. Naturally, all the world's central banks could attempt to massively monetize, but such action would only postpone and aggravate, but not solve, the problem . . . Needless to say, in a deflationary recession the most inflated assets (Hong Kong property, US technology stocks, etc.) would be the hardest hit . . . The ridiculously overpriced Hong Kong property market would totally collapse, unless of course the Hong Kong dollar is devalued by about 30% -- a distinct possibility some time in 1998, in my opinion."

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Merrill Lynch continues to provide (to my mind) some of the best stock and economic analysis available. The following is from Merrill's Nov. 14 "Global Research": "The way we interpret things, recent economic data including large capital-spending numbers and the stronger-than-expected job report for October, threaten corporate profits and dampen the earnings outlook for

medical teams on site. Airlines are also putting defibrillators on planes.

* *

I got to thinking, is living dangerous to our health? Think about it. The oceans are becoming polluted, which means the fish are tainted. Chickens and beef and pork are chock full of hormones, which has probably upped the cancer rate and God knows what else they do (aren't girls all menstruating at the age of 10 to 12 today). They tell us to eat more vegetables and fruit, but they're all sprayed with pesticides and who knows what that does to us. Then of course we have smog and second-hand cigarette smoke to worry about, plus alcohol, of course. Finally, even if we're lucky enough to find untainted food we'll probably eat too much of it and put on dangerous extra pounds. I was discussing all this with a friend and his answer was, "I give up; I'm going out to have a couple of Margaritas. Yeah, I know, they're the world's worst drink health-wise -- they're loaded with sugar, salt and alcohol. But if I have to go, that's the way I want to go. Want to join me?" In a shaking voice I told my friend, "Thanks but no thanks, I only drink red wine."

* *

We went to a party last week and **Tony Bennett** did the entertaining. What is there about those geezer singers that fascinates both the young and old? It's their poise, their professionalism and their knowledge of how to "work" the crowd. Bennett does one other thing that he says he learned from Frank Sinatra -- he sings the great songs.

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It's one of the longest rivalries in any sport, the 100-year rivalry between Cal/Berkeley and Stanford. With a wife who graduated from Stanford and a son who is now at Cal, I was torn as to which side to root for. The game was attended by 85,000 frenzied spectators, and Stanford won 21 to 20. But as the *LA Times* put it, "It was a pleasure to see this sports rarity -- a contest between two great academic universities who happen to have football teams rather than visa versa."

GOLD: Last month the Clinton Administration and the Fed urged Congress to take swift action on a new dollar coin. The coin would be (ugh) "gold-colored" and different from the despised Susan B. Anthony coin (a rotten design for a coin that nobody wanted).

And you have to wonder, will the citizens of the world always accept paper and base metal in return for their labor? A friend tells me, "Who needs to tie up his money in actual gold metal when I can get on the phone and buy a hedge on gold with futures, options, gold shares, gold mutual funds or the XAU index."

On October 24, Switzerland announced that it "plans" to sell half its gold stock possibly in 1999 (assuming approval from the Swiss citizenry, an extremely doubtful assumption). At the news, the price of gold swooned 8.2 dollars to a new multi-year low of 316.5 on the December futures. Now understand this -- I firmly believe that there is a concerted effort by informed and sophisticated investors to get the price of gold down as low as possible. Remember, the daily volume of gold is HUGE -- in the billion dollars every day. Each day someone, some group, somebody is buying all this gold.

In Richard Russell's humble opinion, the bureaucrats who are running the world's central banks have finally swallowed their own nonsense, and they've been swapping their nations' gold reserves for paper. Gold, mined by the sweat of human labor, is being swapped for manufactured, printed paper -- paper, that by government edict, is pronounced to be money.

I predict that in time this swapping gold for paper will be labeled as one of the biggest mistakes, one of the biggest swindles, in financial history. But certain investors, and I'm talking about the "big money," are getting what they want -- gold at super-bargain prices, prices driven down by the bureaucrats who run the world's central banks. Thus, as I see it, **gold is moving from the vaults of the world's central banks to strong hands in the private sector.**

But let's get real. We're talking about current purchasing power. The FACT is that in current purchasing power the dollar (as gold declines) buys more than gold. If you buy or hold gold today, you're holding it for the very long term, in the same way that you hold diamonds or Picassos or a home overlooking the ocean. You're thinking of gold as a timeless store of value.

Will gold end up worthless as its detractors predict? Not a chance. But in terms of what it will buy, gold will fluctuate. As I've said many times before, gold, the metal, and gold stocks are a different story. Gold shares are a call on gold reserves and dividends. When the price of gold goes down, gold shares can decline geometrically. Which is what has been happening.

This article appeared in the November 24 issue of *Business Week,* and I've wondered whether this isn't suggestive of the kind of nonsense that appears at or near the bottom. Remember, these pieces are written by reporters, not students of the market or students of history. For what it's worth, *Business Week* is suggesting that the metal that has been accepted as money 5000 years is just another fading commodity.

HAS GOLD LOST ITS LUSTER FOR GOOD?

Inflation's demise–and huge state sales–scare off the bugs

Soon after the stock market crash of 1987, gold soared to nearly $500 an ounce. Three years later, dur-

NOT SO PRECIOUS

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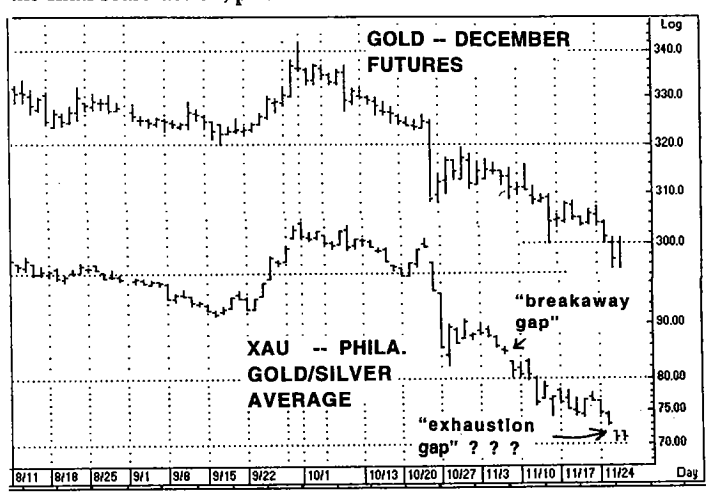
Now turn to the chart. Here we see gold accelerating to the downside, and I'm wondering (particularly in view of the black sentiment) whether this could be the final plunge down -- below the 300 level.

The Phila. Gold/Silver Average (XAU) shows two gaps. The first is a "breakaway gap," a prediction of sharply lower prices. The second gap could be, just could be, an "exhaustion gap," a gap which denotes that the downside is exhausted, that the last sellers have thrown in the sponge. But no sense in trying to read too much into the current charts. We'll soon see whether breaking 300 on gold is a psychological danger signal, or whether breaking 300 is the final scare-action, prior to establishment of a bottom.



LATE NOTES, FINAL THOUGHTS: Despite the lagging action of the A-D ratio (which is a proxy for ALL the stocks on the NYSE) the PTI continues to push up, up, up. So we have new **record** highs in the PTI and Utilities -- with Bonds at high closing for the year. This is written in the morning (Monday) but as this is written the Transports have pushed above that **3211.60** resistance level. If they close above that point, the next target would be the Transports record high of **3368.33,** confirmed, of course, with a record Dow high above **8259.31.**

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